MANAGEMENT’S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

TORONTO HYDRO CORPORATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE
THREE MONTHS AND YEAR ENDED
DECEMBER 31, 2012**

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Forward-Looking Information

Toronto Hydro Corporation (the "Corporation") includes forward-looking information in its Management's Discussion and Analysis ("MD&A") within the meaning of applicable securities laws in Canada ("forward-looking information"). The purpose of the forward-looking information is to provide management's expectations regarding the Corporation's future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management.

The forward-looking information in the MD&A includes, but is not limited to, statements regarding Toronto Hydro-Electric System Limited's ("LDC") distribution revenue, the outcome of outstanding rate applications and other proceedings before the Ontario Energy Board ("OEB"), the Corporation's plans to borrow funds to repay maturing debentures and to finance the investment in LDC's infrastructure, LDC's Conservation and Demand Management ("CDM") programs, the expected results of legal proceedings, market volatility on the Corporation's consolidated results of operations, performance, business prospects and opportunities, the effect of changes in interest rates on future revenue requirements and the changes in accounting estimates. The statements

that make up the forward-looking information are based on assumptions that include, but are not limited to, the future course of the economy and financial markets, the receipt of applicable regulatory approvals and requested rate orders, the receipt of favourable judgments, the level of interest rates and the Corporation's ability to borrow.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, market liquidity and the quality of the underlying assets and financial instruments, the timing and extent of changes in prevailing interest rates, inflation levels, legislative, judicial and regulatory developments that could affect revenues and the results of borrowing efforts.

All forward-looking information in the MD&A is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

Introduction

The following MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Corporation as at and for the year ended December 31, 2012 (the "Consolidated Financial Statements");

Effective January 1, 2012, the Corporation's annual and interim consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP") and are presented in Canadian dollars (see "Significant Accounting Policies" below). The Corporation's annual and interim consolidated financial statements were prepared in accordance with Part V of Canadian Generally Accepted Accounting Principles ("Canadian GAAP") until December 31, 2011. Comparative consolidated financial statements for 2011 have been adjusted retroactively from the consolidated financial statements previously presented to conform to the presentation of the Corporation's 2012 consolidated financial statements prepared in accordance with US GAAP.

Business of Toronto Hydro Corporation

The Corporation is a holding company which wholly-owns two subsidiaries:

- *LDC* - which distributes electricity and engages in CDM activities; and
- *Toronto Hydro Energy Services Inc.* ("TH Energy") - which provides street lighting services.

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, which delivers electricity to approximately 719,000 customers located in the City of Toronto (the "City"). LDC is the largest municipal electricity distribution company in Canada and distributes approximately 19% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB which has broad powers relating to licensing, standards of conduct and service and the regulation of electricity distribution rates charged by LDC and other electricity distributors in Ontario. See note 3 to the Consolidated Financial Statements.

The sole shareholder of the Corporation is the City.

Executive Summary

- Net income for the three months and year ended December 31, 2012 was $22.8 million and $86.0 million, compared to net income of $17.2 million and $95.9 million for the comparable periods in 2011;
- capital expenditures were $107.8 million and $290.4 million for the three months and year ended December 31, 2012, compared to $130.3 million and $437.1 million for the comparable periods in 2011, with the decrease primarily related to uncertainty regarding the electricity distribution rates of LDC for 2012;

- on May 10, 2012, LDC filed an application for electricity distribution rates for 2012, 2013 and 2014 using the Incentive Regulation Mechanism ("IRM") framework, including the filing of an Incremental Capital Module ("ICM") application (the "IRM/ICM Application");
- on October 31, 2012, an update to the IRM/ICM Application was submitted by LDC modifying the requested amounts for 2012 and 2013, respectively, and requesting that consideration for 2014 be deferred until LDC has received a decision from the OEB in respect of the 2012 and 2013 rate years; and
- effective January 1, 2012, the Corporation's consolidated financial statements have been prepared in accordance with US GAAP.

Electricity Distribution – Industry Overview

In April 1999, the Government of Ontario began restructuring Ontario's electricity industry. Under regulations passed pursuant to the restructuring, LDC and other electricity distributors have been purchasing their electricity from the wholesale market administered by the Independent Electricity System Operator ("IESO") and recovering the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the OEB.

The OEB has regulatory oversight of electricity matters in Ontario. The *Ontario Energy Board Act, 1998* (Ontario) (the "OEB Act") sets out the OEB's authority to issue a distribution licence that must be obtained by owners or operators of an electricity distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing process requirements for rate-setting purposes.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

LDC is required to charge its customers for the following amounts (all of which, other than distribution charges, represent a pass through of amounts payable to third parties):

- *Distribution Charges* – Distribution charges are designed to recover the costs incurred by LDC in delivering electricity to customers and the OEB-allowed rate of return. Distribution charges are regulated by the OEB and are comprised of a fixed charge and a usage-based (consumption) charge. The volume of electricity consumed by LDC's customers during any period is governed by events largely outside LDC's control (principally, sustained periods of hot or cold weather which increase the consumption of electricity and sustained periods of moderate weather which decrease the consumption of electricity).

- *Electricity Price and Regulated Adjustments* – The electricity price and regulated adjustments represent the pass through of the commodity and other costs of electricity.

- *Retail Transmission Rate* – The retail transmission rate represents a pass through of wholesale costs incurred by distributors in respect of the transmission of electricity from generating stations to local areas. Retail transmission rates are regulated by the OEB.

- *Wholesale Market Service Charge* – The wholesale market service charge represents a pass through of various wholesale market support costs. Retail rates for the recovery of wholesale market service charges are regulated by the OEB.

LDC is required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of letters of credit, cash deposits or guarantees from third parties with prescribed credit ratings.

The Corporation is exempt from tax under the *Income Tax Act* (Canada) ("ITA") if not less than 90% of the capital of the Corporation is owned by the City and not more than 10% of the income of the Corporation is derived from activities carried on outside the municipal geographical boundaries of the City. In addition, the Corporation's subsidiaries are also exempt from tax under the ITA provided that all of their capital is owned by the Corporation and not more than 10% of their respective income is from activities carried on outside the municipal geographical

boundaries of the City. A corporation exempt from tax under the ITA is also exempt from tax under the *Taxation Act, 2007* (Ontario) ("TA").

The Corporation and each of its subsidiaries are Municipal Electricity Utilities ("MEUs") for purposes of the Payments In Lieu of Corporate Taxes ("PILs") regime contained in the Electricity Act, 1998 (Ontario) ("Electricity Act"). The Electricity Act provides that a MEU that is exempt from tax under the ITA and the TA is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TA if it were not exempt from tax. The PILs regime came into effect on October 1, 2001, at which time the Corporation and each of its subsidiaries were deemed to have commenced a new taxation year for purposes of determining their respective liabilities for PILs payments.

The *Green Energy Act, 2009* (Ontario) (the "Green Energy Act") came into force on May 14, 2009. The Green Energy Act, among other things, permits electricity distribution companies to own renewable energy generation facilities, obligates electricity distribution companies to provide priority connection access for renewable energy generation facilities, empowers the OEB to set CDM targets for electricity distribution companies as a condition of license and requires electricity distribution companies to accommodate the development and implementation of a smart grid in relation to their systems.

Corporate Strategy

The Corporation's vision is to maximize customer and stakeholder satisfaction by providing safe and reliable service in an environmentally responsible way. The Corporation's corporate strategy is based on this vision and is focused on the following four pillars:

- *Health & Safety* – To conduct business with a skilled, safe and productive workforce;
- *Asset Modernization* – Improve reliability and strive to meet the objectives of the Green Energy Act by rebuilding the existing aging infrastructure in keeping with leading technology;
- *Customer Service* – Strive to be the best utility in customer service; and
- *Financial Strength* – Achieve consistent financial performance.

Selected Consolidated Financial Data

The selected consolidated financial data presented below should be read in conjunction with the Consolidated Financial Statements.

Consolidated Statements of Net Income and Comprehensive Income
Three months ended December 31
(in thousands of Canadian dollars, except for per share amounts, unaudited)

	2012 $	2011[1] $	Change $	Change %	2010[1] $
Revenues	692,222	694,284	(2,062)	(0.3)	656,649
Costs					
Purchased power	551,267	542,510	8,757	1.6	515,336
Operating expenses	65,107	66,880	(1,773)	(2.7)	57,702
Depreciation and amortization	35,900	43,984	(8,084)	(18.4)	48,141
	652,274	653,374	(1,100)	(0.2)	621,179
Income before the following:	39,948	40,910	(962)	(2.4)	35,470
Net financing charges	(18,640)	(19,506)	866	(4.4)	(18,478)
Gain (loss) on disposals of property, plant and equipment (“PP&E”)	1,430	(1,135)	2,565	(226.0)	1,094
Income before income taxes	22,738	20,269	2,469	12.2	18,086
Income tax expense (recovery)	(104)	3,041	(3,145)	(103.4)	8,038
Net income and comprehensive income	22,842	17,228	5,614	32.6	10,048
Basic and fully diluted net income per share	22,842	17,228	5,614	32.6	10,048

Note:

[1] The Corporation’s consolidated financial statements were prepared in accordance with Part V of Canadian GAAP until December 31, 2011. Selected financial information from comparative consolidated financial statements for 2011 have been adjusted retroactively from the consolidated financial statements previously filed to conform to the presentation of the Corporation’s 2012 consolidated financial statements prepared in accordance with US GAAP.

TORONTO HYDRO Corporation

Consolidated Statements of Net Income and Comprehensive Income
Year ended December 31
(in thousands of Canadian dollars, except for per share amounts)

	2012 $	2011[1] $	Change $	Change %	2010[1] $
Revenues	2,852,477	2,823,470	29,007	1.0	2,611,671
Costs					
Purchased power	2,275,209	2,236,541	38,668	1.7	2,062,269
Operating expenses	245,173	262,241	(17,068)	(6.5)	223,326
Depreciation and amortization	141,572	151,022	(9,450)	(6.3)	169,408
	2,661,954	2,649,804	12,150	0.5	2,455,003
Income before the following:	190,523	173,666	16,857	9.7	156,668
Net financing charges	(73,977)	(75,324)	1,347	(1.8)	(71,150)
Gain (loss) on disposals of PP&E	1,805	3,885	(2,080)	(53.5)	3,767
Restructuring costs	(27,796)	-	(27,796)	100.0	-
Change in fair value of investments	-	-	-	-	2,420
Income before income taxes	90,555	102,227	(11,672)	(11.4)	91,705
Income tax expense (recovery)	4,565	6,295	(1,730)	(27.5)	25,580
Net income and comprehensive income	85,990	95,932	(9,942)	(10.4)	66,125
Basic and fully diluted net income per share	85,990	95,932	(9,942)	(10.4)	66,125

Note:

[1] The Corporation's consolidated financial statements were prepared in accordance with Part V of Canadian GAAP until December 31, 2011. Selected financial information from comparative consolidated financial statements for 2011 have been adjusted retroactively from the consolidated financial statements previously filed to conform to the presentation of the Corporation's 2012 consolidated financial statements prepared in accordance with US GAAP.

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Condensed Consolidated Balance Sheets Data (in thousands of Canadian dollars)		
	As at December 31 2012 $	As at December 31 2011 $
Total assets	3,539,354	3,527,507
Current liabilities	937,514	483,399
Long-term liabilities	1,461,568	1,941,860
Total liabilities	2,399,082	2,425,259
Shareholder's equity	1,140,272	1,102,248
Total liabilities and shareholder's equity	3,539,354	3,527,507

Results of Operations – 2012 compared to 2011

Net Income

Net income for the three months and year ended December 31, 2012 was $22.8 million and $86.0 million compared to net income of $17.2 million and $95.9 million for the comparable periods in 2011.

The increase in net income for the three months ended December 31, 2012 was primarily due to lower depreciation and amortization expense ($8.1 million), lower income tax expense ($3.1 million), higher gain on disposals of PP&E ($2.6 million), lower operating expenses ($1.8 million) and lower net financing charges ($0.9 million). These favourable variances were partially offset by lower net revenues ($10.8 million).

The decrease in net income for the year ended December 31, 2012 was primarily due to restructuring costs incurred in conjunction with cost reduction initiatives at LDC recognized in the first quarter of 2012 (see "Restructuring Costs" below) ($27.8 million), lower net revenues ($9.6 million) and lower gain on disposals of PP&E ($2.1 million). These unfavourable variances were partially offset by lower operating expenses ($17.1 million), lower depreciation and amortization expense ($9.5 million), lower income tax expense ($1.7 million) and lower net financing charges ($1.3 million).

Net Revenues

Net revenues for the three months and year ended December 31, 2012 were $141.0 million and $577.3 million compared to $151.8 million and $586.9 million for the comparable periods in 2011 (see "Non-GAAP Financial Measures" below).

The decrease in net revenues for the three months ended December 31, 2012 was primarily due to lower regulated distribution revenue at LDC ($8.8 million) and lower other income ($2.0 million). The decrease in distribution revenue was primarily due to a revenue adjustment recorded in 2011 for a large commercial customer ($6.9 million) and a reduction of the Lost Revenue Adjustment Mechanism ("LRAM") receivable reflecting recent decisions rendered by the OEB ($1.3 million).

The decrease in net revenues for the year ended December 31, 2012 was primarily due to lower regulated distribution revenue at LDC ($6.0 million) and lower other income ($3.7 million). The decrease in distribution revenue was primarily due to a revenue adjustment recorded in 2011 for a large commercial customer ($6.9 million), adjustments recorded in 2012 for future taxes payable to customers ($3.8 million), and a reduction of the LRAM receivable reflecting recent decisions rendered by the OEB ($2.5 million). These variances were partially offset by higher electricity distribution rates in the first four months of 2012 compared to 2011 ($3.3 million) and higher consumption ($3.0 million) as a result of higher demand from large customers. The decrease in other income was primarily due to lower regulated customer connection work performed in 2012.

Expenses

Operating expenses for the three months and year ended December 31, 2012 were $65.1 million and $245.2 million compared to $66.9 million and $262.2 million for the comparable periods in 2011.

The decrease in operating expenses for the three months ended December 31, 2012 was primarily due to lower compensation costs resulting mainly from a workforce restructuring program implemented in 2012 ($4.8 million) (see "Restructuring Costs" below) partially offset by higher contractor costs related to an increase in operational and reactive maintenance program work in the fourth quarter of 2012 ($3.5 million) primarily related to lower capital programs at LDC.

The decrease in operating expenses for the year ended December 31, 2012 was primarily due to a favourable reassessment by the Ministry of Finance of Ontario ("Ministry of Finance") for payments in lieu of additional municipal and school taxes recorded in the second quarter of 2012 following a change in regulation related to prior periods ($8.7 million) (see "Corporate Developments – Payments in Lieu of Additional Municipal and School Taxes" below), lower compensation costs resulting mainly from a workforce restructuring program implemented in 2012 ($7.8 million) (see "Restructuring Costs" below), a one-time charge recorded in 2011 related to the decision by the OEB to disallow the recovery of a portion of the costs incurred by the Corporation related to the International Financial Reporting Standards ("IFRS") conversion project ($3.0 million), and reduced bad debt expense ($2.3 million) from improved collection initiatives. These variances were partially offset by higher operational maintenance and contractor costs primarily related to an increase in operational and reactive maintenance program work and lower capital programs at LDC in 2012 ($6.3 million).

Depreciation and amortization expense for the three months and year ended December 31, 2012 was $35.9 million and $141.6 million compared to $44.0 million and $151.0 million for the comparable periods in 2011.

The decrease in depreciation and amortization expense for the three months ended December 31, 2012 was primarily due to certain assets being fully depreciated ($15.0 million) partially offset by an increase in depreciation related to new additions in-service ($6.4 million).

The decrease in depreciation and amortization expense for the year ended December 31, 2012 was primarily due to certain assets being fully depreciated ($23.8 million) and changes in useful life estimates of certain assets ($3.1 million). This decrease was partially offset by an increase in the depreciation related to new additions in-service ($18.3 million).

Net Financing Charges

Net financing charges for the three months and the year ended December 31, 2012 were $18.6 million and $74.0 million compared to $19.5 million and $75.3 million for the comparable periods in 2011.

The decrease in net financing charges for the three months and year ended December 31, 2012 was primarily due to the rollover of maturing debentures at a lower interest rate in late 2011, partially offset by lower interest capitalized in relation to allowance of funds used during construction due to lower capital spending in 2012 and lower interest income on cash and investments.

Gain (loss) on Disposals of PP&E

Gain (loss) on disposals of PP&E for the three months and year ended December 31, 2012 was $1.4 million and $1.8 million compared to ($1.1) million and $3.9 million for the comparable periods in 2011.

The increase in gain on disposals of PP&E for the three months ended December 31, 2012 was primarily due to higher gains realized in connection with the disposals of surplus properties at LDC in the fourth quarter of 2012.

The decrease in gain on disposals of PP&E for the year ended December 31, 2012 was primarily due to lower gains realized as a result of fewer disposals of surplus properties at LDC in 2012. During 2011, LDC recognized $3.9 million in gain on disposals of surplus properties, of which $1.4 million related to surplus properties for which the OEB reduced electricity distribution rates in 2010.

Restructuring Costs

In the first quarter of 2012, the Corporation's Board of Directors approved a workforce restructuring program aimed at reducing operating expenditures for LDC. The program was approved following the decision by the OEB to deny the request of LDC to set its electricity distribution rates for 2012, 2013 and 2014 under the Cost of Service ("COS") framework. In preparing its revised application using the IRM framework, LDC concluded that significant cost reductions were necessary to manage its business within the confines of the expected allowed electricity distribution rates provided by the IRM framework. The main component of these operating cost reduction initiatives was a workforce restructuring program, which included the severance of management employees and a voluntary exit incentive program for targeted unionized positions. See "Corporate Developments – Distribution Rates for LDC" below.

Restructuring costs for the year ended December 31, 2012 were $27.8 million compared to $nil for the comparable period in 2011. This balance was comprised of ongoing termination charges of $23.7 million and one-time termination incentive charges of $4.1 million, of which $12.0 million remains unpaid as at December 31, 2012.

Income Tax Expense (Recovery)

Income tax expense (recovery) for the three months and year ended December 31, 2012 was ($0.1) million and $4.6 million compared to $3.0 million and $6.3 million for the comparable periods in 2011.

The decrease in the income tax expense for the three months ended December 31, 2012 was primarily due to higher deductions for permanent and temporary differences between accounting and tax treatments ($3.8 million) partially offset by higher earnings before taxes ($0.7 million).

The decrease in the income tax expense for the year ended December 31, 2012 was primarily due to lower earnings before taxes ($3.1 million) offset by lower deductions for permanent and temporary differences between accounting and tax treatments ($1.4 million).

Results of Operations – 2011 compared to 2010

Net income was $95.9 million in 2011 compared to $66.1 million in 2010. The increase in net income was primarily due to higher net revenues ($37.5 million), lower income tax expense ($19.3 million), and lower depreciation expense ($18.4 million). These favourable variances were partially offset by higher operating expenses ($38.9 million), higher net financing charges ($4.2 million), and a change in fair value of investments ($2.4 million) in 2010. For further details, see "Selected Consolidated Financial Data" above and the Corporation's 2011 MD&A as filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

Summary of Quarterly Results

The tables below present unaudited quarterly consolidated financial information of the Corporation for 2012 and 2011, which was prepared in accordance with US GAAP.

2012 Quarter Ended, (in thousands of Canadian dollars, unaudited)				
	December 31 $	September 30 $	June 30 $	March 31 $
Revenues	692,222	751,168	709,519	699,568
Costs	652,274	693,809	649,831	666,040
Net income..	22,842	34,436	41,538	(12,826)

2011 Quarter Ended, (in thousands of Canadian dollars, unaudited)				
	December 31 $	September 30 $	June 30 $	March 31 $
Revenues	694,284	738,352	686,646	704,188
Costs	653,374	687,279	648,685	660,466
Net income	17,228	28,982	24,270	25,452

The Corporation's quarterly results are impacted by changes in revenues resulting from variations in seasonal weather conditions, the fluctuations in electricity prices and the timing and recognition of regulatory decisions. The Corporation's revenues tend to be higher in the first and third quarters of a year as a result of higher energy consumption for winter heating in the first quarter and air conditioning/cooling in the third quarter.

Financial Position

The following table outlines the significant changes in the consolidated balance sheets between 2012 and 2011.

Consolidated Balance Sheets Data (in thousands of Canadian dollars)		
Balance Sheet Account	**Increase (Decrease) $**	**Explanation of Significant Change**
Assets		
Cash and cash equivalents	(77,664)	See "Liquidity and Capital Resources" below.
Investments	(34,002)	The decrease in investments is due to the sale and maturity of two floating rate notes in the amounts of $25.0 million and $9.0 million, the first was sold on February 15, 2012 and the second matured on February 17, 2012.
Accounts receivable, net of allowance for doubtful accounts	(8,113)	The decrease in accounts receivable is primarily due to the timing of billing and collection activities ($6.6 million) and the timing of billings and recoveries from the Ontario Power Authority ("OPA") for CDM programs ($2.9 million).
Unbilled revenue	16,028	The increase in unbilled revenue is primarily due to higher energy prices as at December 2012 compared to December 2011 and the timing of billing activities.
PP&E and intangible assets, net	148,267	The increase in PP&E and intangible assets is primarily due to capital expenditures ($290.4 million), partially offset by depreciation during the period ($141.6 million).

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Consolidated Balance Sheets Data (in thousands of Canadian dollars)		
Balance Sheet Account	**Increase (Decrease) $**	**Explanation of Significant Change**
Regulatory assets	(21,824)	The decrease in regulatory assets is primarily due to a decrease in the retail settlement balances regulated by the OEB, lower smart meter recoveries for the year and lower balances related to the accounting policy change upon adoption of US GAAP.
Deferred income tax assets	(8,049)	The decrease in deferred income tax assets is due to a decrease in the net deductible temporary differences between tax and accounting values of PP&E.
Liabilities and Shareholder's Equity		
Accounts payable and accrued liabilities	(29,041)	The decrease in accounts payable and accrued liabilities is mainly due to the reduction in capital programs ($13.7 million), a decrease in customer refunds ($5.2 million), the settlement of prior year's PILs property tax reserve ($4.9 million), and lower cost of power accrual for December 2012.
Restructuring accrual	11,954	The restructuring accrual is due to the workforce restructuring program initiated by the Corporation in the first quarter of 2012 (see "Results of Operations – Restructuring Costs" above).
Deferred conservation credit	6,957	The increase in deferred conservation credit is due to the timing in delivery of CDM programs and advances from the OPA.
Post-retirement benefits	9,564	The increase in post-retirement benefits is due to additional accruals for the current service provided by active employees, partially offset by benefits paid during the period.
Regulatory liabilities	(14,403)	The decrease in regulatory liabilities is due to the net disposition of retail settlement balances to customers approved by the OEB and a reduction of deferred income tax assets payable to customers.
Customers' advance deposits	(9,200)	The decrease in customers' advance deposits is due to the reimbursement of residential customer deposits during the period.
Retained earnings	38,024	The increase in retained earnings is due to net income for the year ($86.0 million), partially offset by dividends paid ($48.0 million).

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, bank financing, and borrowings from debt capital markets. The Corporation's liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, to purchase power, to meet financing obligations and for prudential requirements.

The Corporation does not believe that equity contributions from the City, its sole shareholder, will constitute a source of capital.

Consolidated Statement of Cash Flows
(in thousands of Canadian dollars)

	Three months Ended December 31		Year Ended December 31	
	2012 $	**2011 $**	**2012 $**	**2011 $**
Cash and cash equivalents, beginning of period ...	137,323	153,953	154,256	330,151
Net cash provided by operating activities	43,396	109,928	220,429	345,996
Net cash used in investing activities	(93,420)	(152,921)	(239,132)	(532,513)
Net cash provided by (used in) financing activities	(10,707)	43,296	(58,961)	10,622
Cash and cash equivalents, end of period	76,592	154,256	76,592	154,256

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months and year ended December 31, 2012 was $43.4 million and $220.4 million compared to $109.9 million and $346.0 million for the comparable periods in 2011.

The decrease in net cash provided by operating activities for the three months ended December 31, 2012 was primarily due to a higher variance in accounts payable and accrued liabilities primarily related to timing of payments to suppliers and reduction in capital programs ($50.1 million), a decrease in post-retirement benefits in 2012 ($8.1 million), a decrease in depreciation expense ($8.1 million), and a decrease in the restructuring accrual established in 2012 (see "Results of Operations – Restructuring Costs" above) ($2.9 million). These variances were partially offset by an increase in net income ($5.6 million).

The decrease in net cash provided by operating activities for the year ended December 31, 2012 was primarily due to a higher variance in accounts payable and accrued liabilities primarily due to timing of payments to suppliers and reduction in capital programs ($68.1 million), a lower increase in post-retirement benefit liability in 2012 ($34.7 million), a variance in the aggregate amount of accounts receivable and unbilled revenue due to the timing of billing and collection activities ($19.5 million), a decrease in net income ($9.9 million), and a decrease in depreciation expense ($9.5 million). These variances were partially offset by the recognition of a restructuring accrual in 2012 (see "Results of Operations – Restructuring Costs" above) ($12.0 million) and a variance in income tax receivable ($8.0 million) from lower instalments in 2012.

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months and year ended December 31, 2012 was $93.4 million and $239.1 million compared to $152.9 million and $532.5 million for the comparable periods in 2011.

The decrease in net cash used in investing activities for the three months ended December 31, 2012 was primarily due to a change in net regulatory assets and liabilities ($36.0 million) and lower capital expenditures in 2012 ($22.5 million). The change in net regulatory assets and liabilities was primarily related to a higher variance in 2012 of retail settlement balances regulated by the OEB ($12.4 million), lower regulatory asset recovery accounts

approved by the OEB for disposition ($10.8 million), and lower balances due to the accounting policy change upon adoption of US GAAP ($8.9 million).

The decrease in net cash used in investing activities for the year ended December 31, 2012 was primarily due to lower capital expenditures in 2012 ($146.7 million), a change in net regulatory assets and liabilities ($81.0 million) and a variance related to short-term investment activities ($68.0 million). The change in net regulatory assets and liabilities was primarily related to lower balances due to the accounting policy change upon adoption of US GAAP ($37.9 million), a higher variance in 2012 of retail settlement balances regulated by the OEB ($29.4 million), and lower regulatory asset recovery accounts approved by the OEB for disposition ($25.1 million). The variances related to the net regulatory assets and liabilities were partially offset by changes due to the late payment penalties settlement ($7.8 million) and the reduction of deferred IFRS project expenditures ($6.0 million).

The following table summarizes the Corporation's capital expenditures for the periods indicated.

Capital Expenditures
(in thousands of Canadian dollars)

	Three months Ended December 31		Year Ended December 31	
	2012 $	**2011 $**	**2012 $**	**2011 $**
LDC				
Distribution system	96,675	96,824	257,408	361,851
Technology assets	7,421	11,293	22,752	33,193
Other [1]	3,539	20,401	9,530	36,139
	107,635	128,518	289,690	431,183
Other [2]	146	1,753	688	5,884
Total Capital Expenditures	107,781	130,271	290,378	437,067

Notes:

(1) Consists of leasehold improvements, vehicles, other work-related equipment, furniture and office equipment.
(2) Includes unregulated capital expenditures related to TH Energy.

Under the current electricity distribution rates of LDC, the OEB approved regulated capital expenditures amounted to approximately $140.0 million for 2012. For 2011, the OEB approved $378.8 million in regulated capital expenditures for LDC. On May 10, 2012, LDC filed the IRM/ICM Application. While the IRM/ICM Application proposed by LDC has been under consideration by the OEB, capital spending in 2012 has been maintained at a reduced amount (see "Corporate Developments – Distribution Rates for LDC" below).

The decrease in regulated capital expenditures at LDC for the three months and year ended December 31, 2012 amounted to $20.9 million and $141.5 million, respectively. The decrease was primarily due to the uncertainty surrounding LDC's capital work program as a result of the OEB's decision to impose the IRM framework for 2012.

For the year ended December 31, 2012, the decrease in regulated capital expenditures was primarily related to distribution lines ($64.0 million), fleet & facilities ($29.4 million), feeders ($13.0 million), metering ($10.1 million), and technology assets ($9.1 million).

The most significant areas for regulated capital expenditures incurred by LDC in 2012 were related to rebuilding and maintaining the reliability of the electricity distribution system, primarily by replacing aging assets ($170.5 million), expenditures related to upgrades to stations ($26.7 million) and expenditures related to customer connections ($21.8 million).

Net Cash Provided by (Used in) Financing Activities

Net cash provided by (used in) financing activities for the three months and year ended December 31, 2012 was ($10.7) million and ($59.0) million compared to $43.3 million and $10.6 million for the comparable periods in 2011.

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The increase in net cash used in financing activities for the three months ended December 31, 2012 compared to the same period in 2011 was primarily due to the net effect of the proceeds received in connection with the issuance of $300.0 million of senior unsecured debentures and the repayment of $245.1 million of senior unsecured debentures in 2011 ($52.9 million).

The increase in net cash used in financing activities for the year ended December 31, 2012 compared to the same period in 2011 was primarily due to the net effect of the proceeds received in connection with the issuance of $300.0 million of senior unsecured debentures, the repayment of $245.1 million of senior unsecured debentures in 2011 ($52.9 million) and a higher dividend paid to the City ($14.9 million).

Summary of Contractual Obligations and Other Commitments

The following table presents a summary of the Corporation's debentures, major contractual obligations and other commitments.

Summary of Contractual Obligations and Other Commitments
As at December 31, 2012
(in thousands of Canadian dollars)

	Total $	2013 $	2014/2015 $	2016/2017 $	After 2017 $
Debentures – principal repayment...	1,470,057	470,057	-	250,000	750,000
Debentures – interest payments.......	557,590	60,160	91,600	91,600	314,230
Operating lease obligations and other ………………………………	34,800	9,091	17,051	8,658	-
Future capital commitments [1]..........	15,278	15,278	-	-	-
Capital lease obligations………….	12,766	2,338	4,651	4,620	1,157
Asset retirement obligations...........	5,983	1,285	246	359	4,093
Total contractual obligations and other commitments….....................	2,096,474	558,209	113,548	355,237	1,069,480

Note:
(1) Reflect estimated capital contributions payable to Hydro One Networks Inc. under the Toronto Midtown Transmission Reinforcement Project.

Credit Facilities and Shelf Prospectus

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which establishes a revolving credit facility ("Revolving Credit Facility"). On October 10, 2012, the credit agreement was amended and restated to increase the amount the Corporation may borrow under the Revolving Credit Facility from $400.0 million to $600.0 million and to extend the Revolving Credit Facility's maturity date from May 3, 2013 to October 10, 2017. An amount up to $210.0 million (formerly $140.0 million) is available in the form of letters of credit. The Revolving Credit Facility may be used for general corporate purposes, letter of credit requirements and financing capital expenditures of LDC. As at December 31, 2012, refinancing costs of $1.1 million related to the renewal have been recorded as deferred financing cost.

Additionally, the Corporation is a party to:

- a demand facility with a Canadian chartered bank for $75.0 million (increased from $50.0 million on October 10, 2012) for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ("Prudential Facility"); and
- a demand facility with a second Canadian chartered bank for $20.0 million for the purpose of working capital management ("Working Capital Facility").

As at December 31, 2012, no amounts had been drawn under either the Revolving Credit Facility or the Working Capital Facility. As at December 31, 2012, $49.2 million had been drawn on the Prudential Facility.

The Corporation filed a base shelf prospectus dated December 10, 2012 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to $1.5 billion during the following 25-month period.

Prudential Requirements and Third Party Credit Support

The City has authorized the Corporation to provide financial assistance to its subsidiaries, and LDC to provide financial assistance to other subsidiaries of the Corporation, in the form of letters of credit and guarantees, for the purpose of enabling them to carry on their businesses, up to an aggregate amount of $500.0 million. As at December 31, 2012, the Corporation had drawn letters of credit in the amount of $49.2 million on its Prudential Facility in respect of the operations of LDC.

Dividends

The shareholder direction adopted by the City with respect to the Corporation provides that the Board of Directors of the Corporation will use its best efforts to ensure that the Corporation meets certain financial performance standards, including those relating to the credit rating and dividends. Subject to applicable law, the shareholder direction provides that the Corporation will pay dividends to the City each year amounting to the greater of $25.0 million or 50% of the Corporation's consolidated net income for the year. The dividends are not cumulative and are payable as follows:

- $6.0 million on the last day of each of the first three fiscal quarters during the year;
- $7.0 million on the last day of the fiscal year; and
- the amount, if any, by which 50% of the Corporation's annual consolidated net income for the year exceeds $25.0 million, within ten days after the approval of the Corporation's audited Consolidated Financial Statements for the year by the Board of Directors of the Corporation.

For the year ended December 31, 2012, the Board of Directors of the Corporation declared and paid dividends totalling $48.0 million to the City.

On February 28, 2013, the Board of Directors of the Corporation declared dividends in the amount of $24.0 million. The dividends are comprised of $18.0 million with respect to net income for the year ended December 31, 2012, payable to the City on March 8, 2013, and $6.0 million with respect to the first quarter of 2013, payable to the City on March 28, 2013.

Credit Rating

Maintaining an investment grade credit rating is essential for corporate liquidity and future capital market access. The cost and availability of financing are influenced by credit ratings, which are an indicator of the creditworthiness of a particular company, security or obligation. Lower ratings generally result in higher borrowing costs as well as reduced access to capital markets.

The debentures issued under the Corporation's medium-term note program were rated as follows:

Credit Ratings
As at December 31, 2012

	Rating
DBRS	A (high)
Standard & Poor's	A

Corporate Developments

Distribution Rates for LDC

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect LDC's electricity distribution rates and other permitted recoveries in the future.

LDC's electricity distribution rates for 2011 were determined through an application under the COS framework. The COS framework sets electricity distribution rates using a detailed examination of evidence and an assessment of the costs incurred by an electricity distributor to provide services to its customers.

On July 7, 2011, the OEB issued its decision regarding LDC's electricity distribution rates for 2011. The decision provided for a distribution revenue requirement and rate base of $522.0 million and $2,298.2 million, respectively. In addition, the decision provided for capital program spending levels and operating, maintenance and administration spending levels of $378.8 million and $238.0 million, respectively.

On August 26, 2011, LDC filed a rate application, following the COS framework, with the OEB seeking approval of separate and successive revenue requirements and corresponding electricity distribution rates for 2012, 2013 and 2014. Pursuant to the IRM framework, the OEB established, as a preliminary issue in this application, that it would consider the question of whether the application filed by LDC under the COS framework was acceptable or whether it should be dismissed. The IRM framework provides for a standard adjustment to an electricity distributor's rates based on a formulaic calculation with the possibility to request an ICM to address specific capital expenditure needs that occur during the IRM term, and are not otherwise funded by the formulaic calculation. In order to determine whether a distributor is eligible for the ICM, the OEB conducts a review of the application by way of a detailed examination of a distributor's evidence and consideration of a number of criteria, such as materiality, need and prudence.

LDC filed evidence supporting its position for electricity distribution rates to be set under the COS framework for 2012, 2013 and 2014. The OEB established a process by which a portion of LDC's evidence was tested during an oral hearing held in November 2011.

On January 5, 2012, the OEB rendered its decision on the preliminary issue and dismissed LDC's COS framework application for 2012, 2013 and 2014. In its decision, the OEB found that LDC was not permitted to deviate from the standard IRM framework cycle. Accordingly, LDC was required to file its request for electricity distribution rates for 2012, 2013, and 2014 pursuant to the IRM framework and to use the ICM to request the capital needed for infrastructure renewal.

On January 25, 2012, LDC filed a motion with the OEB to review the OEB's January 5, 2012 decision (the "Motion").

On February 6, 2012, LDC filed a notice of appeal with the Ontario Divisional Court regarding the OEB's January 5, 2012 decision (the "Appeal").

On May 10, 2012, LDC filed the IRM/ICM Application. The formulaic adjustment, requested by LDC, follows the guidelines provided by the OEB and seeks to increase the current revenue requirement by 0.68% to $525.5 million for 2012, $529.1 million for 2013 and $532.7 million for 2014. The 2013 and 2014 formulaic adjustment may be subject to change depending on future inflation and market data.

The IRM/ICM Application proposed by LDC requests rate riders to enable the recovery of capital expenditures. Accordingly, the amount of capital expenditures included in LDC's proposed IRM/ICM Application amounts to $448.7 million for 2012, $534.5 million for 2013 and $439.5 million for 2014.

On August 16, 2012, the OEB issued its decision on the issues list for the application filed May 10, 2012. In that decision, the OEB stated that further procedural steps would be determined pending LDC's response to the OEB as to whether LDC would continue to pursue the Motion and the Appeal. On August 20, 2012, LDC filed a notice of abandonment with the Ontario Divisional Court thereby terminating the Appeal. On the same date, LDC advised the OEB that it would withdraw its Motion for review.

While the IRM/ICM Application proposed by LDC has been under consideration by the OEB, capital spending in 2012 has been maintained at a reduced amount. As it was no longer practical to achieve the previously requested capital spending of $448.7 million in 2012, an update to the IRM/ICM Application was submitted by LDC on October 31, 2012 modifying the requested capital expenditures for 2012 and 2013 to $283.0 million and $579.1 million, respectively, and requesting that consideration for 2014 be deferred to a second phase of the proceeding, once LDC has received a decision from the OEB in respect of phase one. On November 3, 2012, the OEB accepted LDC's request for a two-phase proceeding: phase one comprising LDC's 2012 and 2013 work program proposals and phase two comprising LDC's 2014 work program proposal.

The current application is expected to be subject to an in-depth review by the OEB. There can be no assurance that the OEB will allow for the total or partial recovery of the capital expenditure balances requested in the current application. The financial effect of the OEB decision will be recorded in the period it becomes known and could be material to the Corporation's financial performance.

On October 18, 2012, the OEB released its report, Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach ("RRFE"), which will guide the OEB in setting rates for electricity distributors. The OEB is currently developing the necessary regulatory instruments and expects such instruments to be largely finalized and implemented in time for setting distribution rates beginning May 2014. The RRFE is designed to support the cost-effective planning and operation of the electricity distribution network.

The RRFE identifies three rate-setting methods to provide choices for distributors with varying capital requirements: a Fourth Generation Incentive Rate-setting method, which builds on the current Third Generation Incentive Rate-setting method; a Custom Incentive Rate-setting method, through which rates are set based on a five year forecast of a distributor's revenue requirement and sales volumes; and an Annual Incentive Rate-setting Index method, which involves adjustment of rates by a simple price cap index formula. Each distributor may select the rate-setting method that best meets its needs and circumstances. The RRFE also requires distributors to file five-year capital plans to support their rate applications, and to report annually on their key performance outcomes. Within the scope of the information currently available, the Corporation is currently assessing the rate-setting methods available and other implications resulting from the RRFE.

Street Lighting Activities

On June 15, 2009, the Corporation filed an application with the OEB seeking an electricity distribution licence for a new wholly-owned legal entity to which the Corporation intended to transfer the street lighting assets of TH Energy. Concurrently, the Corporation filed another application with the OEB seeking approval for the merger of LDC and the new legal entity. The main objective of these applications was to transfer the street lighting assets to the regulated electricity distribution activities of LDC to increase the overall safety of the related infrastructure.

On February 11, 2010, the OEB issued its decision in regard to these applications. In its decision, the OEB agreed that, under certain conditions, the treatment of certain types of street lighting assets as regulated assets is justified. The OEB ordered the Corporation to provide a detailed valuation of the street lighting assets and to perform an operational review to determine which street lighting assets could become regulated assets. The Corporation performed a detailed asset operational review and financial valuation of the street lighting assets, which was submitted to the OEB on January 31, 2011.

On August 3, 2011, the OEB issued its final decision allowing the transfer of a portion of the street lighting assets to the new wholly-owned legal entity (1798594 Ontario Inc.), and for LDC to amalgamate with the new legal entity. On January 1, 2012, the Corporation completed the asset transfer and amalgamation. The purchase price for such assets, including a post-closing adjustment, was $42.5 million, subject to transaction costs.

CDM Activities

On March 31, 2010, the Minister of Energy and Infrastructure of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to establish CDM targets to be met by electricity distributors. Accordingly, on November 12, 2010, the OEB amended LDC's distribution licence to require LDC, as a condition of its licence, to achieve 1,304 GWh of energy savings and 286 Megawatts of summer peak demand savings, over the period beginning January 1, 2011 through December 31, 2014.

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Effective January 1, 2011, LDC entered into an agreement with the OPA in the amount of approximately $50.0 million to deliver CDM programs extending from January 1, 2011 to December 31, 2014 (the "Master CDM Program Agreement"). As at December 31, 2012, LDC received approximately $35.4 million from the OPA for the delivery of CDM programs under the Master CDM Program Agreement. All programs to be delivered under the Master CDM Program Agreement are fully funded and paid in advance by the OPA. Amounts received but not yet spent are presented under current liabilities as deferred conservation credit. Upon the expiration of the Master CDM Program Agreement, LDC is required to repay to the OPA any excess funding received for program administration less any cost efficiency incentives. These programs are expected to support the achievement of the mandatory CDM targets described above.

On December 21, 2012, the Minister of Energy of Ontario issued a direction to the OPA under subsection 25.32(4.1) of the Electricity Act to extend the funding time period for OPA-contracted province-wide CDM initiatives under the Green Energy Act framework to December 31, 2015.

OEB PILs Proceeding

The OEB conducted a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for certain MEUs. On June 24, 2011, the OEB issued its decision for these MEUs and provided guidelines for the calculation and further disposition of the balances accumulated in the PILs regulatory variance accounts. Subsequent to this decision, the OEB issued interrogatories and decisions for other MEUs.

LDC has reviewed the balances of its PILs regulatory variance accounts and applied the guidelines provided by the OEB. As at December 31, 2012, LDC estimated its liability at approximately $7.0 million. This balance has been recorded in the Corporation's Consolidated Financial Statements. LDC has applied for disposition of the balance as part of its pending IRM/ICM Application filed on May 10, 2012. The amount to be approved by the OEB will be based on the OEB's interpretation and application of its guidelines and the final balance which is yet to be approved by the OEB could differ materially from LDC's estimation of its liability.

Payments in Lieu of Additional Municipal and School Taxes

The Ministry of Finance had issued assessments in respect of payments in lieu of additional municipal and school taxes under section 92 of the Electricity Act that were in excess of the amounts LDC believed were payable. The dispute arose as a result of inaccurate information incorporated into Ontario Regulation 224/00. The Corporation worked with the Ministry of Finance to resolve this issue, and as a result the Ministry of Finance issued Ontario Regulation 423/11 on August 31, 2011. The new regulation revoked Ontario Regulation 224/00 and corrected inaccurate information retroactively to 1999.

In May 2012, the Ministry of Finance completed its reassessment as a consequence of the change in regulation. The impact of the reassessment issued was favourable to the Corporation.

Changes to the Corporation's Board of Directors

On July 12, 2012, the City, as the sole shareholder of the Corporation, appointed Vincent Brescia on the Board of Directors as an independent director of the Corporation. This appointment was effective immediately for a term ending November 30, 2012, or until a successor is appointed.

Effective as of January 1, 2013, the City, as the sole shareholder of the Corporation, appointed councilor Gloria Lindsay Luby as the City's designates on the Board of Directors of the Corporation to replace councilor Ron Moeser and also re-appointed councilor Josh Colle as the Mayor's designate and councilor Shelley Carroll as the City's designates on the Board of Directors of the Corporation. Their appointments are effective to November 30, 2014.

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various litigation and claims with customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual

issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy.

Christian Helm Class Action

On December 6, 2010, a statement of claim in a proposed class action was issued against LDC. The claim sought general and special damages in the amount of $100.0 million for disgorgement of unjust gains allegedly resulting from the receipt of interest on overdue accounts in contravention of the *Interest Act* (Canada). On April 30, 2012, a settlement reached by the parties was approved by Order of the Ontario Superior Court of Justice. Pursuant to the terms of the Order, LDC was required to pay the amount of $5.8 million plus costs in settlement of all claims, substantially all of which had been paid as at December 31, 2012. The Corporation accrued a liability to cover the expected settlement in 2010. The action has been dismissed, and the claims by all class members have been released.

2 Secord Avenue

An action was commenced against LDC in September 2008 in the Ontario Superior Court of Justice under the Class Proceedings Act, 1992 (Ontario) seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. This action is at a preliminary stage. The statement of claim has been served on LDC, a statement of defence and third party claim have been served by LDC and a third party defence and counterclaim against LDC seeking damages in the amount of $51.0 million have been filed. A certification order has been issued. Affidavits of documents have been produced by LDC to the other parties and examinations for discovery have commenced and are continuing. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

On December 20, 2010, LDC was served with a statement of claim by the City seeking damages in the amount of $2.0 million as a result of the fire at 2 Secord Avenue. A statement of defence and a third party claim have been served. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

By order of the court dated January 24, 2012, the above actions and a smaller non-class action commenced in April 2009 involving the same incident will be tried at the same time or consecutively.

2369 Lakeshore Boulevard West

A third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice under the *Class Proceedings Act, 1992* (Ontario) seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks damages in the amount of $10.0 million from LDC. Both actions are at a preliminary stage and the certification hearing has yet to occur. Statements of defence to the main action and to the third party claim have not been filed. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with these actions.

Another third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of the fire at 2369 Lakeshore Boulevard West. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action sought damages in the amount of $0.4 million from LDC. LDC has filed a statement of defence, crossclaim and counterclaim. Examinations for discovery have not taken place, notwithstanding a court ordered timetable to have them completed by February 29, 2012. By order dated December 5, 2012, these actions were dismissed by the court for delay.

On August 29, 2011, LDC was served with a statement of claim by the owner of the building and the property management company for the building seeking damages in the amount of $2.0 million as a result of the fire at 2369 Lakeshore Boulevard West. LDC has filed a statement of defence and counterclaim. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

Share Capital

The authorized share capital of the Corporation consists of an unlimited number of common shares of which 1,000 common shares are issued and outstanding as at the date hereof.

Transactions with Related Parties

The City is the sole shareholder of the Corporation. Subsidiaries of the Corporation provide certain services to the City at commercial and regulated rates, including electricity, street lighting and other services. All transactions with the City are conducted at prevailing market prices and normal trade terms. Additional information with respect to related party transactions between the Corporation and its subsidiaries, as applicable, and the City is set out below.

Transactions with Related Parties Summary
(in thousands of Canadian dollars)

	Three months Ended December 31		Year Ended December 31	
	2012 $	2011 $	2012 $	2011 $
Revenues	53,075	54,290	222,032	210,449
Operating expenses and capital expenditures	9,798	15,069	26,259	30,582
Dividends	7,000	7,000	47,966	33,063

Transactions with Related Parties Summary
(in thousands of Canadian dollars)

	As at December 31 2012 $	As at December 31 2011 $
Accounts receivable	7,810	8,412
Unbilled revenue	17,018	12,439
Other assets	7,279	7,279
Accounts payable and accrued liabilities	38,020	25,085
Advance deposits	8,926	8,714

Revenues represent amounts charged to the City primarily for electricity, street lighting, and ancillary services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends represent dividends paid to the City.

Accounts receivable represent receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue represents receivables from the City related to the provision of electricity and other services provided and not yet billed. Other assets represent amounts primarily for prepaid land leases from the City. Accounts payable and accrued liabilities represent amounts payable to the City relating to road cut repairs and

other services, as well as funds received from the City for the construction of electricity distribution assets. Advance deposits represent funds received from the City for future expansion projects.

See note 20 to the Consolidated Financial Statements.

Risk Factors

The Corporation is subject to a variety of risks including those described below:

Regulatory Developments

Ontario's electricity industry regulatory developments and policy changes may affect the electricity distribution rates charged by LDC and the costs LDC is permitted to recover. This may in turn have a material adverse effect on the financial performance of the Corporation and/or its ability to provide reliable service to its customers. In particular, there can be no assurance that:

- the OEB will approve LDC's electricity distribution rates under the IRM framework, including the ICM, at levels that will permit LDC to carry out its planned capital work programs required to maintain safe and reliable service to its customers and earn the allowed rate of return on the investment in the business;
- the regulatory instruments that arise from the RRFE will be sufficient to address LDC's operations, needs and circumstances in respect of future applications for electricity distribution rates;
- the OEB will not set a lower recovery for LDC's cost of capital;
- the full cost of providing service to distribution customers will be permitted to be recovered through LDC's electricity distribution rates;
- the OEB will not permit competitors to provide distribution services in LDC's licensed area, or permit loads within LDC's service area to become electrically served by a means other than through LDC's electricity distribution system;
- the OEB will allow recovery for revenue lost as a consequence of unanticipated effects of CDM;
- parts of LDC's services will not be separated from LDC and opened to competition; or
- regulatory or other changes will not be made to the PILs regime.

Changes to any of the laws, rules, regulations and policies applicable to the businesses carried on by the Corporation could also have a significant impact on the Corporation. There can be no assurance that the Corporation will be able to comply with applicable future laws, rules, regulations and policies. Failure by the Corporation to comply with applicable laws, rules, regulations and policies may subject the Corporation to civil or regulatory proceedings that may have a material adverse effect on the Corporation.

Any future regulatory decision to disallow or limit the recovery of costs would lead to potential asset impairment and charges to results from operations, which could have a material adverse effect.

Condition of Distribution Assets

LDC estimates that approximately one-third of its electricity distribution assets are past their expected useful lives. LDC's ability to continue to provide a safe work environment for its employees and a reliable and safe distribution service to its customers and the general public will depend on, among other things, the OEB allowing recovery of costs in respect of LDC's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

LDC is focused on overcoming the above challenges and executing its maintenance program. However, if LDC is unable to carry out these plans in a timely and optimal manner, equipment performance will degrade which

may compromise the reliability of distribution assets, the ability to deliver sufficient electricity and/or customer supply security and increase the costs of operating and maintaining these assets.

Information Technology Infrastructure

LDC's ability to operate effectively is in part dependent on the development, maintenance and management of complex information technology systems. Computer systems are employed to operate LDC's electricity distribution system and financial, billing and business systems to capture data and to produce timely and accurate information. Failures of any one of the financial, business and operating systems could have a material adverse effect on the Corporation's business, operating results, financial condition and prospects. The Corporation mitigates this risk through various methods including the use of security event management tools on its distribution and business systems, by separating the electricity distribution system from the business systems and by providing company-wide awareness training to personnel.

LDC's electricity distribution infrastructure and technology systems are also potentially vulnerable to damage or interruption from cyber attacks, which could have an adverse impact on its operations, financial conditions, brand and reputation. While LDC has implemented preventative measures to monitor and protect against cyber attacks and mitigate their effects, there can be no assurance that such measures will be completely effective in protecting LDC's electricity distribution infrastructure or assets from a cyber attack or the effects thereof.

Labour Relations

The Corporation's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions to adapt to changing circumstances. The Corporation's ability to make such changes, in turn, will continue to depend in part on its relationship with its labour unions and its ability to develop plans and approaches that are acceptable to its labour unions. There can be no assurance that the Corporation will be able to secure the support of its labour unions.

Natural and Other Unexpected Occurrences

LDC's operations are exposed to the effects of natural and other unexpected occurrences such as severe or unexpected weather conditions, terrorism and pandemics. Although LDC's facilities and operations are constructed, operated and maintained to withstand such occurrences, there can be no assurance that they will successfully do so in all circumstances. Any major damage to LDC's facilities or interruption of LDC's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although the Corporation has insurance, if it sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC would apply to the OEB for the recovery of the loss related to the electricity distribution system. There can be no assurance that the OEB would approve, in whole or in part, such an application.

Electricity Consumption

LDC's electricity distribution rates are comprised of a fixed charge and a usage-based (consumption) charge. The volume of electricity consumed by LDC's customers during any period is governed by events largely outside LDC's control (e.g., principally sustained periods of hot or cold weather could increase the consumption of electricity, sustained periods of mild weather could decrease the consumption of electricity and general economic conditions could affect overall electricity consumption). Accordingly, there can be no assurance that LDC will earn the revenue requirement approved by the OEB.

Economic conditions could also lead to lower overall electricity consumption, particularly in the commercial customer segment, which is estimated to be the most sensitive to economic changes. Lower electricity consumption from customers could negatively impact LDC's revenue. On an annual basis, the Corporation estimates that a decrease of 1% in electricity consumption would reduce net revenue by approximately $3.6 million.

Market and Credit Risk

LDC is subject to credit risk with respect to customer non-payment of electricity bills. LDC is permitted to mitigate the risk of customer non-payment using any means permitted by law, including security deposits (including letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB), late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. In the event of an actual

payment default and a corresponding bad debt expense incurred by LDC, approximately 80% of the expense would be related to commodity and transmission costs and the remainder to LDC's distribution revenue. While LDC would be liable for the full amount of the default, there can be no assurance that the OEB would allow recovery of the bad debt expense from remaining customers. Established practice in such cases is that the OEB would examine any electricity distributor's application for recovery of extraordinary bad debt expenses on a case-by-case basis.

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. The Corporation estimates that a 1% (100 basis point) increase in the discount rate used to value these obligations would decrease the accrued benefit obligation, as at December 31, 2012, by approximately $39.4 million, and a 1% (100 basis point) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2012, by approximately $48.3 million.

As at December 31, 2012, the Corporation has limited exposure to interest rate risk since its significant obligations are either non-interest bearing or bear fixed interest rates, its financial assets are predominately short-term in nature and mostly non-interest bearing, and its revenue is governed by a specified rate of return pricing structure set by the OEB. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in a decrease (increase) of approximately $0.3 million per annum to net financing charges.

Additional Debt Financing and Credit Rating

Cash generated from operations, after the payment of expected dividends, will not be sufficient to repay existing indebtedness, fund capital expenditures and meet other obligations. The Corporation relies on debt financing through its medium-term note program or existing credit facilities to repay existing indebtedness and fund capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be adversely affected by a number of factors, including financial market conditions, the regulatory environment in Ontario, the Corporation's results of operations and financial condition, the ratings assigned to the debentures issued under the Corporation's medium-term note program by credit rating agencies, the current timing to maturity of the Corporation's debentures and general economic conditions. See note 13 to the Consolidated Financial Statements.

Should the Corporation's credit rating from both credit rating agencies fall below "A (minus)" with stable outlook (S&P) and "A (low)" with stable trend (DBRS), the Corporation and its subsidiaries may be required to post additional collateral with the IESO.

Work Force Renewal

Over the next decade, a significant portion of LDC's employees will become eligible for retirement, including potential retirements occurring in supervisory, trades and technical positions. Accordingly, LDC will be required to attract, train and retain skilled employees. There can be no assurance that LDC will be able to attract and retain the required workforce.

Insurance

Although the Corporation maintains insurance, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable or that insurance will continue to be available. In addition, there can be no assurance that available insurance will cover all losses or liabilities that might arise in the conduct of the Corporation's business. The Corporation self-insures against certain risks (e.g., business interruption and physical damage to certain automobiles). The occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by the Corporation could have a material adverse effect on the Corporation's results of operations and financial position.

Conflicts of Interest

The City owns all of the outstanding shares of the Corporation and has the power to determine the composition of the Board of Directors of the Corporation and influence the Corporation's major business and corporate decisions, including its financing programs and dividend payments. A conflict may arise between the City's role as the sole shareholder of the Corporation and its role as the administrator of the City's budget and other matters for the residents of the City.

Change of Ownership

The City may also decide to sell all or part of the Corporation. In the case of such event, depending on the nature of the transaction, the Corporation's credit ratings could be negatively affected.

Accounting Policies

Given that the decision granted by the Canadian securities regulatory authorities allows the option to prepare consolidated financial statements in accordance with US GAAP for fiscal years beginning before January 1, 2015, and the continued uncertainty around the timing, scope and eventual adoption of a Rate-Regulated Accounting ("RRA") standard under IFRS and the potential material impact of RRA on the Corporation's consolidated financial statements, if the Corporation were to adopt IFRS, it may have an impact on the Corporation's future financial position and results of operations, which cannot be reasonably quantified at this time.

Real Property Rights

Certain terminal stations and municipal sub-stations of LDC are located on lands owned by the Province, the City and others. In some cases, LDC does not have and may not be able to obtain formal access agreements with respect to such facilities. Failure to obtain or maintain access agreements could adversely affect LDC's operations.

LDC Competition

In the past, there had been one electricity distributor in each region of Ontario. Under the current regulatory regime, a person must obtain a licence from the OEB in order to own and operate an electricity distribution system. LDC has the right to distribute electricity in the City. Although the distribution licence specifies the area in which the distributor is authorized to distribute electricity, unless otherwise provided, the licence does not provide exclusive distribution rights for such area.

The Corporation believes that the complexities and potential inefficiencies that would be created by having multiple electricity distributors authorized to serve a single area are likely to result in the continuation of the practice of having a single electricity distributor authorized to serve a single area. In addition, the Corporation believes that there are significant barriers to entry with respect to the business of electricity distribution in Ontario, including the cost of maintaining an electricity distribution system, OEB regulation of electricity distribution rates and the level of regulatory compliance required to operate an electricity distribution system. However, the Corporation recognizes that more than one distribution licence could be issued for the same area and there is a possibility that in the future some business functions or activities could be separated from LDC and made open to competition from non-regulated business entities, or that defined geographical areas within LDC's service area may be electrically supplied by a means other than through LDC's electricity distribution system.

Non-GAAP Financial Measures

The Corporation's MD&A includes references to "net revenues", which is a non-GAAP financial measure. The definition of net revenues is revenue minus the cost of purchased power. This measure does not have any standard meaning prescribed by US GAAP and is not necessarily comparable to similarly titled measures of other companies. The Corporation uses this measure to assess its performance and to further make operating decisions. Users of the MD&A utilize this measure to assess the Corporation's financial performance from ongoing operations.

Critical Accounting Estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with US GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and judgments under different assumptions or conditions.

The following critical accounting estimates involve the more significant estimates and judgments used in the preparation of the Consolidated Financial Statements:

Revenue Recognition

Revenue from the sale of electricity is recorded on the basis of cyclical billings and includes an estimated amount for electricity delivered and not yet billed, the amount of which is impacted by energy demand, customer class usage patterns and composition, and weather conditions. Other revenues, which include revenues from electricity distribution related services, revenues from the delivery of street lighting services and revenues from demand billable activities, are recognized as the services are rendered.

Regulatory Assets and Liabilities

As at December 31, 2012, regulatory assets amounted to $121.2 million and were primarily related to the accounting policy changes upon the adoption of US GAAP and the deferral of smart meter expenditures incurred in 2008, 2009 and 2010. As at December 31, 2012, regulatory liabilities amounted to $196.8 million and were primarily related to future income tax assets payable to customers. These assets and liabilities can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is judged to be probable. In the event that the disposition of these balances was assessed to be no longer probable, the balances would be recorded in the Corporation’s consolidated statements of net income and comprehensive income in the period that the assessment is made. The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation and the OEB’s decisions.

Employee Future Benefits

Employee future benefits other than pension provided by the Corporation include medical, dental and life insurance benefits, and accumulated sick leave credits. These plans provide benefits to employees when they are no longer providing active service. The accrued benefit obligation and net periodic benefit cost are calculated by independent actuaries using the projected unit credit method and based on assumptions that reflect management’s best estimate. The assumptions were determined by management recognizing the recommendations of the Corporation’s actuaries. There could be no assurance that actual employee future benefits cost will not differ significantly from the estimates calculated using management’s assumptions.

Asset Retirement Obligations

The Corporation recognizes a liability for the future removal and handling costs for contamination in distribution equipment and for the future environmental remediation of certain properties. Asset retirement obligations amounted to $5.1 million as at December 31, 2012 compared to $4.9 million as at December 31, 2011. See notes 4 (p) and 15 to the Consolidated Financial Statements.

Significant Accounting Policies

The Consolidated Financial Statements of the Corporation have been prepared in accordance with US GAAP and are presented in Canadian dollars. In preparing the Consolidated Financial Statements, management makes estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses for the year. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy of Ontario, or the Ministry of Finance. The significant accounting policies of the Corporation are summarized in note 4 to the Consolidated Financial Statements.

Changes in Accounting Estimates

Intangible Assets

Effective January 1, 2012, the Corporation revised its estimate of useful life of its Customer Care and Billing Customer Information System from five years to ten years as a result of an analysis completed related to the useful life assessment. This change has been accounted for on a prospective basis in the Consolidated Financial Statements effective January 1, 2012. The change in estimate reduced amortization expense by approximately $4.0 million for the year ended December 31, 2012 with an offsetting increase in the carrying value of intangible assets.

TORONTO HYDRO Corporation

The change in estimate will decrease future amortization expense by $4.0 million per year over the term of the original useful life with no impact to the final year of the original useful life, and thereafter increase future amortization expense by $4.0 million per year. See note 4(h) to the Consolidated Financial Statements.

Future Accounting Pronouncements

A number of new standards and interpretations are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these Consolidated Financial Statements. The Corporation continues to analyze these standards and had initially determined that the following could have a significant effect on the Consolidated Financial Statements.

In December 2011, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"). The amendments require an entity to disclose both gross and net information about financial instruments and transactions eligible for offset in the consolidated balance sheets. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Retrospective application is required. The ASU No. 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities", was issued in January 2013 to amend the scope of ASU 2011-11 to clarify that the disclosure requirements are limited to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset in the consolidated balance sheets or subject to enforceable master netting arrangements or similar agreements. Based on the Corporation's analysis, the adoption of these amendments are not expected to have an impact on the Corporation's consolidated balance sheets or significantly impact disclosures.

US GAAP Transition

Publicly accountable enterprises in Canada were required to adopt IFRS for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. On September 10, 2010, the Accounting Standards Board granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation. The Corporation elected to take the optional one-year deferral of its adoption of IFRS. In the absence of a definitive plan to consider the issuance of a rate-regulated accounting standard by the International Accounting Standards Board ("IASB"), the Corporation decided to evaluate the option of adopting US GAAP effective January 1, 2012 as an alternative to IFRS. On July 21, 2011, the Ontario Securities Commission granted the Corporation an exemption to allow the Corporation to file financial statements under US GAAP for the years commencing on or after January 1, 2012 but before January 1, 2015. On August 26, 2011, the Board of Directors of the Corporation approved the adoption of US GAAP for financial reporting purposes for the year beginning on January 1, 2012.

The accompanying Consolidated Financial Statements are the Corporation's first annual financial statements prepared in accordance with US GAAP. The accounting policies set out in note 4 to the Consolidated Financial Statements have been applied consistently in preparing the Consolidated Financial Statements for the current and the comparative periods.

The quantification and reconciliation of the Corporation's consolidated balance sheet as at December 31, 2011, prepared in accordance with US GAAP as compared to Canadian GAAP is an increase to both total assets and total liabilities of approximately $71.7 million. The increase is primarily due to the recognition of unamortized actuarial losses and prior service costs and the reclassification of debt issuance costs in accordance with US GAAP. With respect to the consolidated statement of income and comprehensive income for the period ended December 31, 2011, net income was not impacted due to the Corporation's continued ability to apply rate-regulated accounting policies. Based on the detailed assessment of the key accounting areas for which significant Canadian GAAP and US GAAP differences were identified, there was no impact to equity and net earnings from those previously reported in the interim and annual consolidated financial statements.

The Corporation has adjusted amounts reported previously in its consolidated financial statements prepared in accordance with Part V of Canadian GAAP. For reporting purposes, the transition date to US GAAP is January 1, 2011, which is the commencement of the 2011 comparative period to the Corporation's 2012 Consolidated Financial Statements. A reconciliation of the transition from Part V of Canadian GAAP to US GAAP from January 1, 2011 and December 31, 2011 is provided in note 25 to the Consolidated Financial Statements. Due to the limited differences between Part V of Canadian GAAP and US GAAP, the Corporation's compliance with its debt covenants was not impacted by the conversion to US GAAP.

As a result of the transition to US GAAP, there was no significant impact on the Corporation's internal controls, information technology systems and financial reporting expertise requirements. The Corporation has completed topic-specific and relevant training to affected finance and operational teams on all key differences between Canadian GAAP and US GAAP, including management, the Board of Directors, and relevant committees thereof, including the audit committee. The Corporation will continue to focus on training for any key developments in US GAAP and the potential impacts to the Corporation's consolidated financial statements.

On February 28, 2012, LDC submitted a letter to the OEB requesting an accounting order establishing a deferral account to record the accounting differences between Canadian GAAP and US GAAP. On June 7, 2012, the OEB approved the establishment of the accounting policy changes account to record the expected electricity distribution charges to customers arising from timing differences in the recognition of actuarial gains and losses and prior service costs related to other post-retirement benefits. The OEB's approval of this account does not constitute a decision with respect to the Corporation's use of US GAAP for regulatory reporting purposes and LDC intends to seek this approval in its next electricity distribution rate rebasing application.

IFRS

As a result of the Corporation's 2011 decision to adopt US GAAP, the conversion of the Corporation's general purpose financial statements to IFRS was suspended. The Corporation's IFRS conversion project included separate awareness and assessment, design and implementation phases. As well, it involved among other initiatives, a detailed assessment of the effects of IFRS on its financial statements, an update of information systems to meet IFRS requirements, and assessment of internal controls over financial reporting and disclosure controls and processes, as well as training of key finance and operations staff.

Rate-Regulated Accounting

In accordance with US GAAP, the Corporation currently follows specific accounting policies unique to a rate-regulated business. Under RRA, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under US GAAP in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These timing differences are recorded as regulatory assets and regulatory liabilities on the Corporation's consolidated balance sheet and represent current rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. As at December 31, 2012, the Corporation reported $121.2 million of regulatory assets and $196.8 million of regulatory liabilities.

On July 23, 2009, the IASB issued an Exposure Draft proposing accounting requirements for rate-regulated activities. The IASB received a significant number of comment letters with diverging opinions. After much deliberation into the various issues raised, the IASB members remained divided and determined that the matter could not be resolved quickly. The RRA project was suspended in 2010, awaiting the outcome of the Agenda consultation.

On May 21, 2012, the IASB expressed its support for a standards level project on RRA. On September 20, 2012, the IASB decided that the RRA project would be restarted with the development of a Discussion Paper ("DP"). In preparation for the December IASB meetings, the IASB staff issued Agenda Paper 6 outlining the staff's view of the issues to be addressed in the DP, a proposed project plan and timeline and issues to consider when deciding whether or not to publish an interim standard. On December 17, 2012, the IASB tentatively decided that the DP would be published in September 2013. The IASB also tentatively decided to develop an Exposure Draft for an interim standard that would permit grandfathering of existing recognition and measurement policies for those entities that currently recognize regulatory assets and liabilities in accordance with their local accounting requirements.

The Canadian Securities Administrators ("CSA") wrote a letter to the IASB on December 10, 2012 in response to the RRA project. The CSA fully supports the initiatives taken by the IASB to address the accounting for rate-regulated activities and strongly encourages the IASB to develop an interim standard which would allow Canadian issuers with rate-regulated activities to also adopt IFRS.

In the absence of an interim or final RRA standard by the IASB, the Corporation intends to continue to use the Ontario Securities Commission's exemption to report under US GAAP up to December 31, 2014. The Corporation is actively monitoring developments by the IASB on rate-regulated accounting should a future IFRS conversion be required. Although the conversion of the Corporation's general purpose financial statements to IFRS

was suspended in 2011, the IFRS conversion work is being managed in such a way that if a future transition to IFRS is required, it can be effectively accomplished.

Selected Annual Information

The following table sets forth selected annual financial information of the Corporation for the three years ended December 31, 2012, 2011 and 2010. This information has been derived from the Consolidated Financial Statements.

Selected Annual Consolidated Financial Information (in thousands of dollars)

Year Ended December 31,	2012 $	2011[1] $	2010[1] $
Net revenues[2]	577,268	586,929	549,402
Operating expenses[2]	245,173	262,241	223,326
Net income[2]	85,990	95,932	66,125
Capital expenditures[3]	290,378	437,067	390,784
As at December 31,	**2012 $**	**2011[1] $**	**2010[1] $**
Total assets[4]	3,539,354	3,527,507	3,338,614
Total debentures[4] [5]	1,469,590	1,469,527	1,409,837
Other non-current financial liabilities[6]	16,175	27,101	45,831
Shareholder's equity[4]	1,140,272	1,102,248	1,039,379
Dividends[7]	47,966	33,063	25,000

Notes:

(1) The Corporation's consolidated financial statements were prepared in accordance with Part V of Canadian GAAP until December 31, 2011. Selected financial information from comparative consolidated financial statements for 2011 have been adjusted retroactively from the consolidated financial statements previously filed to conform to the presentation of the Corporation's 2012 consolidated financial statements prepared in accordance with US GAAP.
(2) See "Results of Operations" for further details on net revenues, operating expenses and net income.
(3) See "Liquidity and Capital Resources" for further details on capital expenditures.
(4) See "Financial Position" for further details of significant changes in assets, debentures and shareholder's equity.
(5) Total debentures include current and long-term debentures.
(6) Other non-current financial liabilities include non-current obligations under capital lease and non-current customers' advance deposits. Under US GAAP, deposits that are due or will be due on demand within one year from the end of the reporting period have been reclassified to other current financial liabilities.
(7) See "Dividends" for further details.

Additional Information

Additional information with respect to the Corporation (including its annual information form) is available at www.sedar.com.

Toronto, Canada

February 28, 2013